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C O N F I D E N T I A L SECTION 01 OF 02 ATHENS 001903

SIPDIS

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TAGS: [EAIR](#) [ECON](#) [GR](#)

SUBJECT: AEGEAN CEO: IT'S JUST BUSINESS, AIRBUS FITS OUR OLYMPIC-LESS FUTURE

REF: A. ATHENS 1832

[¶](#)B. ATHENS 1836

[¶](#)C. ATHENS 1851

Classified By: AMB Charles Ries According to reasons 1.5 (b) and (d)

[¶](#)1. (C) Summary: Ambassador met with Aegean Airlines CEO Theodoros Vassilakis and fellow Board-member and son, Eftihios Vassilakis, to discuss Aegean's recent decision to purchase six Airbus aircraft over Boeing aircraft. Theodoros denied any political angle in the Airbus decision, claiming that Aegean is merely looking ahead toward a future without main rival Olympic Airlines, where Aegean expands its service throughout Europe. Noting that Airbus and Boeing had made very similar offers on price, the decision had come down to the novelty marketing potential of switching to Airbus, lingering irritation with unspecified support problems during their relationship with Boeing, and most significantly, greater flexibility in training air crews in the Airbus 319 through 321 family as opposed to Boeing aircraft. Furthermore, father and son confirmed that the switch to Airbus would mean the complete phasing out of Boeing aircraft by 2010, when the Aegean fleet might number as many as 25 aircraft. Theodoros did agree to entertain a final approach from Boeing, although they felt the likelihood of the decision being changed was no more than "10 or 20 percent." End Summary.

[¶](#)2. (C) Ambassador met with Aegean Airlines CEO Theodoros Vassilakis, as well as Vassilakis's son and fellow Aegean Board-member, Eftihios Vassilakis. Ambassador outlined U.S. concern regarding Aegean's recent decision to negotiate the purchase of six Airbus 320s instead of Boeing 737s, even before Boeing's scheduled final presentation. Theodoros denied that political objectives had played any role in the decision, citing Aegean's desire to remain independent. Eftihios laid out the three major factors that had influenced the decision to go with Airbus: a "novelty" effect of switching airframes that could boost passenger interest and market share, the effect of unspecified past support problems Aegean had had with Boeing, and that the Airbus 319 to 321 family of aircraft provided the greatest growth flexibility, especially in flight crew training requirements. Given that the price quoted by the two competitors was similar, and that the economics were highly dependent on future operating conditions, the decision had come down to these less quantifiable factors.

[¶](#)3. (C) When asked if there wasn't an offsetting cost penalty in operating a split Boeing/Airbus fleet, Eftihios noted that in the short-term Airbus would absorb direct, non-personnel costs of retraining flight crew, and that in the long-term there would be no split fleet, as Aegean intends to completely phase out its Boeing aircraft. Expanding on this bombshell, Eftihios outlined Aegean's plan: BAE RJ turboprops are to be immediately phased out and replaced by leased 737s until 2007, then all Boeing aircraft will be phased out for Airbus aircraft by 2010. Eftihios noted that Aegean's Board, envisioning a future without an Olympic Airlines, sees Aegean's size as potentially 25 aircraft by 2010, all of which may be Airbuses.

[¶](#)4. (C) In discussing the privatization of Olympic Airlines, both father and son were confident that Olympic would be defunct within six months. They calculated that Olympic Airlines, and the ground services company Olympic Airways, were costing the GoG 600-800 million euro in losses annually.

Ambassador noted that it had been observed that EC Transportation Minister Barrot's cabinet was suddenly showing great interest in the Olympic privatization, and that rumors were circulating that Aegean had agreed to buy Airbus in return for increased EC pressure on the GoG to scuttle any Olympic privatization effort and force the company into liquidation. Ambassador noted that even in the absence of any overt agreement, the rumors looked bad. Theodoros bristled at the thought that the EC would help Aegean, observing that the EC had done nothing to stop Olympic's illegal subsidization for over six years. He admitted that EU ambassadors had been in to see him about purchasing Airbus aircraft, but denied that he, or anyone else from Aegean, had asked for any political assistance. He stressed that he was not naive, and after years of frustration in trying to level the playing field between Aegean and Olympic, he did not believe that anyone in the EC would ever help his company.

15. (C) Ambassador posed the question of whether one of those EU ambassadors might have, even without a direct request, approached Barrot to step up the pressure on the GoG regarding the fate of Olympic Airlines in an attempt to sway the balance. Father and son agreed that this might have happened, but denied it had had any impact on Aegean's decision. Eftihios outlined Aegean's strategic view: with Olympic Airlines out of the picture in no more than six months, Aegean has to position itself to take advantage of its future position as Greece's only air carrier. In the Board's view, the 737 family is too limited in size, especially if Aegean finds itself eventually needing to fly wide-bodied aircraft. With the Airbus purchase, Aegean can purchase smaller aircraft for current needs, yet be positioned to move more easily into larger aircraft to meet future needs. Returning to the issue of Boeing having lost its final presentation opportunity, Theodoros offered to allow Boeing to come in with a final offer if they would like to do so. Eftihios agreed, but noted that in his opinion, there was only a ten or twenty percent chance of Boeing being able to present a package attractive enough to reverse the Board's decision.

16. (C) Comment: It is unfortunate to hear that Aegean is planning to drop Boeing from its fleet entirely, even more so given that they are planning on expanding their total fleet size, possibly to include large aircraft. The rationale behind Aegean's decision is clearer, however, given it's Board's view that Olympic Airlines is doomed and that Aegean should position itself to become a larger player in the European market. Although neither Vassilakis admitted to any overt political influence in the Aegean purchase decision, it is hard to escape the conclusion that the Board was not averse to becoming "more European" by purchasing Airbus, given their expansion interests. It is likewise difficult to avoid concluding that, expressly or implicitly stated, Brussels was in a position to help Aegean out with its control over the fate of Olympic Airlines. If the Europeans were aware that this deal was potentially larger than a one-time, six aircraft deal, then their willingness to use that influence, even if not directly requested, is readily explained.

17. (C) The final variable in this saga is the role the GoG might play in the event that it concludes that Aegean had a hand in scuttling, or attempting to scuttle, the Olympic privatization deal. Local press has reported that Olympic's fifth privatization tender is in jeopardy, and if it fails, it is hard to imagine that GoG will not carry out their earlier promise to finally liquidate the company. If the GoG has already approached Aegean about the alleged Barrot connection between increased EC pressure on the Olympic deal and the Aegean Airbus purchase, neither Vassilakis gave any indication to that effect. It is more likely the GoG is waiting until after the July 15th meeting between Minister of Transportation Liapis and Barrot in Brussels before taking action. Ambassador will seek a readout of that meeting as soon as Liapis returns next week. End Comment.

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